

The Charlotte Hungerford Hospital

Independent Auditors' Report,
Financial Statements and Supplemental Information

As of and for the Years Ended
September 30, 2011 and 2010



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report, Financial
Statements and Supplemental Information
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Independent Auditors' Report

To the Board of Governors of
The Charlotte Hungerford Hospital:

We have audited the accompanying balance sheets of The Charlotte Hungerford Hospital (the Hospital) a Connecticut not-for-profit, non-stock corporation, as of September 30, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended (2010 is a consolidated presentation). These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2011 and 2010 financial statements referred to above present fairly, in all material respects, the financial position of The Charlotte Hungerford Hospital as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion of the financial statements taken as a whole. The supplemental information, contained on pages 28 through 31, is presented for purposes of additional analysis in conjunction with the financial statements and is not a required part of the financial statements. Accordingly, we do not express an opinion on the supplemental information for 2011 and the consolidating statement of operations and changes in unrestricted net assets of the individual entities for the year end September 30, 2010. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Saslow Lufkin & Buggy, LLP

December 8, 2011

The Charlotte Hungerford Hospital
Balance Sheets
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>
Assets			Liabilities		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 8,455,576	\$ 5,456,105	Current portion of bonds payable	\$ 1,155,000	\$ 1,120,000
Accounts receivable (less allowance for doubtful accounts of \$1,519,710 in 2011 and \$1,566,219 in 2010)	11,144,540	9,573,323	Current portion of loans payable	186,190	212,691
Inventories	1,994,112	1,886,150	Current portion of capital lease obligations	-	21,204
Estimated amounts due from third-party reimbursement agencies	1,516,187	1,079,437	Accounts payable	5,509,809	4,439,653
Due from temporary restricted funds	26,124	227,108	Estimated amounts due to third-party reimbursement agencies	1,693,818	2,034,000
Other current assets	2,334,740	2,192,779	Accrued salaries, wages and fees	3,433,272	3,018,603
	<u>25,471,279</u>	<u>20,414,902</u>	Other current liabilities	7,183,569	5,718,436
Total current assets	25,471,279	20,414,902	Total current liabilities	19,161,658	16,564,587
Assets whose use is limited:			Bonds payable, less current portion	1,200,000	2,355,000
Investments held in trust for estimated self-insurance liabilities	3,726,581	4,042,373	Loans payable, less current portion	3,424,338	3,667,950
Under bond indenture agreement - held by others	288,839	277,118	Estimated self-insurance liabilities	2,631,693	2,554,405
Donor restricted assets	6,563,036	6,732,834	Accrued pension liability	26,422,971	33,995,533
Beneficial interest in assets held in trust by others	12,360,649	12,619,869	Total liabilities	52,840,660	59,137,475
	<u>22,939,105</u>	<u>23,672,194</u>			
Total assets whose use is limited	22,939,105	23,672,194			
Long-term investments	28,762,329	30,690,384			
Pledges receivable, net	169,438	282,069			
Property, plant and equipment:					
Land	155,467	155,467	Commitments and contingencies	-	-
Land improvements	4,555,336	4,556,586			
Buildings	77,970,871	75,462,132			
Fixed equipment	16,505,932	16,297,585			
Moveable equipment	42,244,214	40,755,078			
	<u>141,431,820</u>	<u>137,226,848</u>			
Less: accumulated depreciation	(102,493,235)	(96,582,714)			
	<u>38,938,585</u>	<u>40,644,134</u>			
Construction in progress	1,037,834	918,096			
	<u>39,976,419</u>	<u>41,562,230</u>			
Total property, plant and equipment	39,976,419	41,562,230			
Leased equipment under capital leases, net of accumulated amortization of \$83,894 in 2010	-	18,833	Net assets		
Deferred financing costs, net	68,796	100,282	Unrestricted (\$28,006,131 in 2011 and \$29,921,043 in 2010 designated by the Board of Governors)	47,062,165	39,188,881
Other assets	1,439,144	938,165	Temporarily restricted	2,810,655	2,980,453
	<u>1,507,940</u>	<u>1,057,280</u>	Permanently restricted	16,113,030	16,372,250
Total other assets	1,507,940	1,057,280	Total net assets	65,985,850	58,541,584
Total assets	<u>\$ 118,826,510</u>	<u>\$ 117,679,059</u>	Total liabilities and net assets	<u>\$ 118,826,510</u>	<u>\$ 117,679,059</u>

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2011 and 2010

	2011	<i>(consolidated)</i> 2010
Unrestricted revenues		
Net patient service revenues	\$ 109,579,717	\$ 103,758,285
Other revenues	<u>4,949,386</u>	<u>5,283,033</u>
Total revenues	114,529,103	109,041,318
Expenses		
Salaries and wages	53,287,674	50,331,274
Physician fees	1,479,732	1,154,344
Employee benefits	15,812,664	15,643,996
Services	13,731,155	13,641,006
Supplies	18,577,930	18,222,428
Provision for bad debts	2,129,955	2,413,649
Depreciation and amortization	6,178,082	6,177,041
Interest and bond expenses	308,286	374,299
Insurance	<u>2,375,289</u>	<u>1,867,148</u>
Total expenses	113,880,767	109,825,185
Operating income (loss)	648,336	(783,867)
Other income		
Investment and other income, net	1,496,290	1,996,464
Gifts and bequests	405,765	127,644
Gain from equity method investments	<u>109,058</u>	<u>119,337</u>
Total other income	2,011,113	2,243,445
Excess of revenues over expenses	<u>\$ 2,659,449</u>	<u>\$ 1,459,578</u>

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2011 and 2010

	2011	<i>(consolidated)</i> 2010
Unrestricted net assets		
Excess of revenues over expenses	\$ 2,659,449	\$ 1,459,578
Change in unrealized (losses) gains on investments	(1,866,495)	1,124,598
Pension related changes other than net periodic pension costs	6,880,330	(5,216,819)
Net assets released from restrictions used for purchase of property and equipment	200,000	-
Reclassification of temporary net assets	-	109,559
	<hr/>	<hr/>
Change in unrestricted net assets	7,873,284	(2,523,084)
Temporarily restricted net assets		
Investment (loss) income	(11,740)	51,128
Contributions	186,977	690,138
Change in unrealized (losses) gains on investments	(78,255)	88,992
Net assets released from restrictions	(266,780)	(774,452)
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Change in temporarily restricted net assets	(169,798)	55,806
Permanently restricted net assets		
Change in beneficial interest in assets held in trust by others	(259,220)	813,860
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Change in permanently restricted net assets	(259,220)	813,860
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Change in net assets	7,444,266	(1,653,418)
Net assets, beginning of year	58,541,584	60,195,002
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Net assets, end of year	\$ 65,985,850	\$ 58,541,584
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The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	2011	<i>(consolidated)</i> 2010
Cash flows from operating activities		
Change in net assets	\$ 7,444,266	\$ (1,653,418)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,178,082	6,177,041
Net realized gains on investments	(576,937)	(750,157)
Net unrealized losses (gains) on investments	1,944,750	(1,213,555)
Decrease (increase) in beneficial interest in assets held in trust by others	259,220	(813,860)
Provision for bad debts, net	2,129,955	2,413,649
Changes in:		
Accounts receivable, net	(3,701,172)	(2,095,408)
Inventories	(107,962)	(60,581)
Estimated amounts due from third-party reimbursement agencies	(436,750)	(977,280)
Due from temporary restricted funds	200,984	65,500
Other current assets	(141,961)	(593,159)
Other assets, net	(500,979)	(166,156)
Pledges receivable	112,631	(1,869)
Accounts payable	1,070,156	629,295
Estimated amounts due to third-party reimbursement agencies	(340,182)	(332,000)
Accrued salaries, wages and fees	414,669	(1,596,506)
Other current liabilities	1,465,133	1,667,415
Estimated self-insurance liabilities	77,288	362,321
Accrued pension liability	(7,572,562)	5,645,819
Net cash provided by operating activities	7,918,629	6,707,091
Cash flows from investing activities		
Proceeds from sales of investments	6,727,788	1,880,894
Purchases of investments	(5,693,677)	(3,913,874)
Purchases of property, plant and equipment, net	(4,541,952)	(1,585,125)
Net cash used in investing activities	(3,507,841)	(3,618,105)
Cash flows from financing activities		
Principal payments on Series C bonds	(1,120,000)	(1,080,000)
Principal payments on long-term debt agreements	(91,965)	(20,321)
Payments on KDA long-term debt	(178,148)	(532,139)
Principal payments on capital lease obligations	(21,204)	(21,842)
Net cash used in financing activities	(1,411,317)	(1,654,302)
Net change in cash and cash equivalents	2,999,471	1,434,684
Cash and cash equivalents, beginning of year	5,456,105	4,021,421
Cash and cash equivalents, end of year	\$ 8,455,576	\$ 5,456,105
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 255,720	\$ 279,402

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 1 - General

Organization - The Charlotte Hungerford Hospital (the Hospital), located in Torrington, Connecticut, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for the residents of northwestern Connecticut.

Surgical Associates of Litchfield County, LLC (SALC) was a for-profit limited liability company, which provided health care services to the residents of northwestern Connecticut. SALC was formed on May 1, 2004 to further the charitable and benevolent purposes of the Hospital. The Hospital, through a management contract with SALC was responsible for managing the affairs of SALC and making management decisions on behalf of SALC. As of December 31, 2009, SALC was dissolved and all operations were transferred to the Hospital, therefore, for the year ended September 30, 2010 the statement of operations and changes net assets has been presented on a consolidated basis.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). All significant intercompany amounts have been eliminated in consolidation for the fiscal year 2010 operations.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates relate to contractual allowances and the allowance for doubtful accounts on patient accounts receivable, self-insurance liabilities, valuation of investments, estimated settlements due to third-party reimbursement agencies and pension plan assumptions. Actual results could differ from those estimates.

Net Asset Categories - To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

Unrestricted - Unrestricted net assets represent available resources other than donor restricted contributions. Included in unrestricted net assets are assets set aside by the Board of Governors (the Board) for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Temporarily restricted - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

Permanently restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that the income earned thereon be available for operations and beneficial interest in assets held in trust by others.

Assets Held in Trust by Others - The Hospital has been named sole or participating beneficiary in several perpetual trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity. The estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. Fluctuations in the value of such assets are recognized as changes in permanently restricted net assets.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Recognition of Grant Revenue - Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. The Hospital recognized \$2,419,371 and \$2,611,278 of grant revenue, included in other revenues, for the years ended September 30, 2011 and 2010, respectively. Grant receipts in excess of revenues recognized are presented as deferred grant support. Deferred grant support of \$153,249 and \$209,000 is included in other current liabilities in the accompanying balance sheets as of September 30, 2011 and 2010, respectively.

Pledges Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those contributions are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in other revenues. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The Hospital's policy is to present restricted contributions received during the year whose restrictions are also met during the current year as unrestricted net asset activity. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is actually received.

The Hospital's policy is to recognize the expiration of donor restrictions for contributions of property and equipment or the use of contributions restricted for property and equipment in the year the property and equipment is placed in service.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. It is the Hospital's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Hospital maintains cash balances in excess of the FDIC insurance limit.

Inventories - Inventories, used in general operations of the Hospital, are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Investments - The Hospital accounts for its investments in accordance with FASB ASC, 320, "*Investments - Debt and Equity Securities*." Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheets. Management determines the appropriate classification of its investments in invested securities at the time of the purchase and reevaluates such determination at each balance sheet date. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses.

All of the Hospital's investments as of September 30, 2011 and 2010, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

The amortized costs of fixed maturities are adjusted using the interest method for amortization of premiums and accretions of discounts. Such amortization and accretion are included in investment income.

Other Than Temporary Impairment of Investments - The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320-10 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2011 or 2010.

Assets Whose Use is Limited - Assets whose use is limited include assets set aside for self-insurance trust arrangements, assets held by trustees under bond indenture agreements, donor restricted endowments and assets held in trust by others.

Federal Income Taxes - The Hospital is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital also had a for-profit subsidiary in fiscal year 2010, SALC, that is an LLC in a net operating loss position and is not a taxpayer, therefore no income tax provision has been provided for in 2010. As of December 31, 2009, SALC was dissolved and all operations were transferred to the Hospital.

The Hospital accounts for uncertain tax positions with provisions of FASB ASC 740, "Income Taxes" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2011 and 2010. As of September 30, 2011 and 2010, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination.

Property, Plant and Equipment - Property, plant and equipment purchased by the Hospital is recorded at cost, or if received as a donation, at fair value on the date received. The Hospital provides for depreciation of property, plant and equipment for financial reporting purposes using the straight-line method over the estimated useful lives of the various assets. American Hospital Association lives are generally used and provide for a 25-50 year life for buildings and a 3-20 year life for building fixtures and equipment. Leased equipment is amortized on a straight-line basis over the shorter of the life of the applicable lease or life of the leased asset.

Depreciation expense was \$6,117,180 and \$6,116,386 for the years ended September 30, 2011 and 2010, respectively.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Investments in Joint Ventures - The Hospital has invested in certain joint ventures which are accounted for under the equity method of accounting and included within other assets on the balance sheets. The Hospital's investment in these joint ventures is as follows:

	<u>Ownership Percentage</u>
Advanced Medical Imaging of Northwest CT, LLC (AMI)	
(Except for the Fixed MRI segment, in which the ownership is 67%)	50%
MedConn Collection Agency, LLC	20%
Urology Center of Northwest CT, LLC (Urology)	62.5%

The Hospital has recorded its share of AMI's net income of \$595,957 and \$612,026 within other revenues as of September 30, 2011 and 2010, respectively, as these services are a component of the Hospital operations. In addition, the 62.5% investment in Urology is immaterial to present in a consolidated presentation.

Deferred Financing Costs - Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method.

Statements of Operations and Changes in Net Assets - For purposes of display, transactions deemed by management to be ongoing, major or central to the providing of healthcare services are reported as operating revenues and expenses. Investment income and realized gains and losses on securities are considered non-operating activity. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, except for losses that are deemed to be other than temporary, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

New Accounting Pronouncements - In January 2010, the FASB issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2, as well as significant transfers in and out of Level 3 of the fair value hierarchy, is effective for interim and annual reporting periods beginning after December 15, 2009. The new guidance also requires that purchases, sales, issuances and settlements be presented gross in the Level 3 reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it did not impact the Hospital's financial position, results of operations or cash flows.

In August 2010, the FASB issued Accounting Standards Updated (ASU) No. 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*". ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The adoption of this new guidance is effective for the Hospital beginning October 1, 2011.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU No. 2010-24, “*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*”. ASU No. 2010-24 is intended to address current diversity in practice to the accounting by healthcare entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Most healthcare entities have netted anticipated insurance recoveries against the related accrued liability, although some entities have presented the anticipated insurance recovery and related liability on a gross basis. The existing guidance does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. This update clarifies that a healthcare entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this new guidance is effective for the Hospital beginning October 1, 2011.

In July 2011, the FASB issued ASU No. 2011-07, “*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*”, which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity’s policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Hospital beginning October 1, 2012.

Subsequent Events - Subsequent events have been evaluated through December 8, 2011, the date through which procedures were performed to prepare the financial statements for issuance. Management believes there are no subsequent events having a material impact on the financial statements.

Reclassifications - Certain reclassifications to the 2010 financial statements have been made in order to conform to the 2011 presentation. Such reclassifications did not have a material effect on the financial statements.

Note 3 - Revenues from Services to Patients and Charity Care

The following table reconciles gross revenues to net revenues from services to patients:

	<u>2011</u>	<u>2010</u>
Gross revenues from services to patients	\$ 206,920,675	\$ 187,448,112
Deductions and allowances	<u>(97,340,958)</u>	<u>(83,689,827)</u>
Net revenues from services to patients	<u>\$ 109,579,717</u>	<u>\$ 103,758,285</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 3 - Revenues from Services to Patients and Charity Care (continued)

Net Patient Service Revenue and Net Accounts Receivable - Net patient service revenue is reported at the established net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Net patient service revenue and accounts receivable are recorded when patient services are performed. Adjustments and settlements under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

At September 30, 2011, 50% and 49% and at September 30, 2010, 50% and 51% of net patient accounts receivable were from governmental (Medicare and Medicaid) and nongovernmental payers, respectively. Nongovernmental payers are primarily insurance companies and self-pay payers. Management has recorded an allowance for doubtful accounts, which, in its opinion, is sufficient to provide for risk of nonpayment.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. For the years ended September 30, 2011 and 2010, the Hospital granted charity care of \$1,726,098 and \$1,421,695, respectively. In addition, the Hospital released assets whose use was restricted to fund free-care of \$17,176 and \$82,368, for the years ending September 30, 2011 and 2010, respectively.

State of Connecticut Regulatory Environment - Connecticut's acute care hospital regulatory system is currently administered by the State of Connecticut Office of Health Care Access.

Federal Regulatory Environment - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. While no known regulatory inquiries are pending, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 4 - Investments

Cost and fair values of investments as of September 30, 2011 and 2010, are summarized as follows:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Long-term investments:				
(including Board and donor restricted)				
Money market funds	\$ 3,658,381	\$ 3,658,381	\$ 2,998,173	\$ 2,998,173
Certificates of deposit	10,020	10,057	30,060	30,328
Equity securities	19,345,509	21,266,076	17,674,292	20,805,020
Corporate and foreign bonds	6,445,904	6,671,199	5,995,140	6,465,521
Municipal bonds	261,302	280,782	170,000	182,937
Mutual and exchange traded funds	3,177,448	2,479,068	5,280,641	4,974,529
U.S. treasury and government agencies	914,522	959,802	1,873,861	1,966,710
Total	<u>\$ 33,813,086</u>	<u>\$ 35,325,365</u>	<u>\$ 34,022,167</u>	<u>\$ 37,423,218</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 1,667,268	\$ 1,667,268	\$ 1,347,043	\$ 1,347,043
Mutual funds	2,000,013	2,059,313	2,580,289	2,695,330
Total	<u>\$ 3,667,281</u>	<u>\$ 3,726,581</u>	<u>\$ 3,927,332</u>	<u>\$ 4,042,373</u>
Under bond indenture agreement - held by others:				
Money market funds	\$ 399	\$ 399	\$ 277,118	\$ 277,118
U.S. treasury and government agencies	288,677	288,440	-	-
Total	<u>\$ 289,076</u>	<u>\$ 288,839</u>	<u>\$ 277,118</u>	<u>\$ 277,118</u>

Beneficial interest assets held in trust of \$12,360,649 and \$12,619,869, as of September 30, 2011 and 2010, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 4 - Investments (continued)

The following table shows fair values and gross unrealized losses for all investment categories that are in an unrealized loss position as of September 30, 2011 and 2010, and the length of time that the securities have been in an unrealized loss position as of September 30, 2011 and 2010:

	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2011						
Equity securities	\$ 5,174,602	\$ (976,453)	\$ 2,999,472	\$ (928,026)	\$ 8,174,074	\$ (1,904,479)
Corporate and foreign bonds	1,352,762	(38,999)	-	-	1,352,762	(38,999)
Mutual and exchange traded funds	874,694	(150,055)	1,292,302	(590,821)	2,166,996	(740,876)
Total	\$ 7,402,058	\$ (1,165,507)	\$ 4,291,774	\$ (1,518,847)	\$ 11,693,832	\$ (2,684,354)
2010						
Equity securities	\$ 1,757,005	\$ (175,442)	\$ 3,558,133	\$ (951,896)	\$ 5,315,138	\$ (1,127,338)
Corporate and foreign bonds	73,071	(491)	258,025	(1,975)	331,096	(2,466)
Mutual and exchange traded funds	127,274	(9,363)	1,392,075	(383,312)	1,519,349	(392,675)
U.S. treasury and government agencies	100,420	(827)	-	-	100,420	(827)
Total	\$ 2,057,770	\$ (186,123)	\$ 5,208,233	\$ (1,337,183)	\$ 7,266,003	\$ (1,523,306)

The unrealized losses for less than 12 months relate to 79 and 63 individual holdings of debt and equity securities as of September 30, 2011 and 2010, respectively. The unrealized losses for 12 months or greater relate to 140 and 91 individual holdings of debt and equity securities as of September 30, 2011 and 2010, respectively. These unrealized losses were determined not to be other than temporary impaired based on the guidance provided in FASB ASC 320 and consultation with various investment advisors.

Investment income net, which is unrestricted, is comprised of the following for the years ended September 30, 2011 and 2010:

	2011	2010
Income, gains and (expenses):		
Interest and dividend income	\$ 1,116,090	\$ 1,433,116
Net realized gains on securities	576,937	750,157
Expenses	(196,737)	(186,809)
Total	\$ 1,496,290	\$ 1,996,464

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements

FASB ASC 820-10, “*Fair Value Measurements and Disclosures*”, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2011 by the valuation hierarchy:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,455,576	\$ -	\$ -	\$ 8,455,576
Money market funds	3,658,381	-	-	3,658,381
Certificates of deposit	10,057	-	-	10,057
Equity securities:				
Industrials	4,866,755	-	-	4,866,755
Consumer staples	2,178,036	-	-	2,178,036
Consumer discretionary	1,804,001	-	-	1,804,001
Health care	2,365,879	-	-	2,365,879
Energy	2,540,455	-	-	2,540,455
Financials	1,861,698	-	-	1,861,698
Technology	3,711,908	-	-	3,711,908
Utilities	1,472,419	-	-	1,472,419
Real estate	464,925	-	-	464,925
Corporate and foreign bonds	-	6,671,199	-	6,671,199
Municipal bonds	-	280,782	-	280,782
Mutual and exchange traded funds:				
Materials	272,047	-	-	272,047
Index funds	242,077	-	-	242,077
Industry funds	130,327	-	-	130,327
International	1,393,755	-	-	1,393,755
U.S. large cap	100,313	-	-	100,313
U.S. mid and small cap	25,643	-	-	25,643
Fixed income	314,906	-	-	314,906
U.S. treasury and government agencies	-	959,802	-	959,802
Funds held under bond indenture	-	288,839	-	288,839
Self-insurance trust	-	3,726,581	-	3,726,581
Funds held in trust by others	-	-	12,360,649	12,360,649
Total	<u>\$ 35,869,158</u>	<u>\$ 11,927,203</u>	<u>\$ 12,360,649</u>	<u>\$ 60,157,010</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2010 by the valuation hierarchy:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,456,105	\$ -	\$ -	\$ 5,456,105
Money market funds	-	2,998,173	-	2,998,173
Certificates of deposit	30,328	-	-	30,328
Equity securities	20,805,020	-	-	20,805,020
Corporate and foreign bonds	-	6,465,521	-	6,465,521
Municipal bonds	-	182,937	-	182,937
Mutual funds	4,974,529	-	-	4,974,529
U.S. treasury and government agencies	-	1,966,710	-	1,966,710
Funds held under bond indenture	-	277,118	-	277,118
Self-insurance trust	-	4,042,373	-	4,042,373
Funds held in trust by others	-	-	12,619,869	12,619,869
Total	<u>\$ 31,265,982</u>	<u>\$ 15,932,832</u>	<u>\$ 12,619,869</u>	<u>\$ 59,818,683</u>

A rollforward as of September 30, 2011 and 2010, of the amounts classified as Level 3 investments, within the fair value hierarchy is as follows:

	<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2009	\$ 11,806,009
Transfers out	(419,316)
Fees	(62,497)
Unrealized gains	<u>1,295,673</u>
Balance as of September 30, 2010	12,619,869
Transfers out	(472,675)
Fees	(71,019)
Unrealized gains	<u>284,474</u>
Balance as of September 30, 2011	<u>\$ 12,360,649</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

The fair value measurement level selected within the fair value hierarchy discussed above is based on using the lowest level of input that is significant to the fair value measurement. There were no transfers between fair value hierarchy level 1, level 2 and level 3 for any invested assets recorded at fair value during 2011. The valuation techniques used by the Company maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of the Company's Level 2 and Level 3 investments are determined by management after considering prices received from third party pricing services.

A description of additional inputs used in the Company's Level 2 and Level 3 measurements are listed below:

United States treasury and government agencies: Primary inputs also include observations of credit default swap curves related to the issuer and political events.

Corporate bonds: Primary inputs also include observations of credit default swap curves related to the issuer.

Municipal bonds: Primary inputs also include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Funds held in trust by others: Represent beneficial interest in certain assets held by third parties. These interests are classified as Level 3 investments as the reported fair values are based on a combination of Level 1 and Level 2 inputs and significant unobservable inputs as determined by the trustees who exercise control over the investments.

Note 6 - Endowment

The Hospital's endowment consists of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds, funds designated by the Board of Governors to function as endowments and funds held in trust by others. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Hospital has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital during its annual budgeting process.

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment policies of the Hospital.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 6 - Endowment (continued)

The net asset composition of the Hospital's endowment funds as of September 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 28,006,131	\$ -	\$ -	\$ 28,006,131
Beneficial trusts	-	-	12,360,649	12,360,649
Donor restricted	-	2,810,655	3,752,381	6,563,036
Total	\$ 28,006,131	\$ 2,810,655	\$ 16,113,030	\$ 46,929,816

The net asset composition of the Hospital's endowment funds as of September 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 29,921,043	\$ -	\$ -	\$ 29,921,043
Beneficial trusts	-	-	12,619,869	12,619,869
Donor restricted	-	2,980,453	3,752,381	6,732,834
Total	\$ 29,921,043	\$ 2,980,453	\$ 16,372,250	\$ 49,273,746

Changes in endowment net assets for the year ended September 30, 2011 and 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, October 1, 2009	\$ 27,050,721	\$ 2,924,647	\$ 15,558,390	\$ 45,533,758
Investment return:				
Investment gain	1,961,328	51,128	-	2,012,456
Net change in market value	908,994	88,992	813,860	1,811,846
Contributions	-	690,138	-	690,138
Expenditures	-	(774,452)	-	(774,452)
Balance, September 30, 2010	29,921,043	2,980,453	16,372,250	49,273,746
Investment return:				
Investment loss	(191,117)	(11,740)	-	(202,857)
Net change in market value	(1,723,795)	(78,255)	(259,220)	(2,061,270)
Contributions	-	186,977	-	186,977
Expenditures	-	(266,780)	-	(266,780)
Balance, September 30, 2011	\$ 28,006,131	\$ 2,810,655	\$ 16,113,030	\$ 46,929,816

The expenditures that were released for operations of \$66,780 and \$774,452 for the years ended September 30, 2011 and 2010, respectively, are included within investment and other income, net within the statements of operations and changes in net assets.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 6 - Endowment (continued)

Temporarily restricted net assets are available for the following purposes as of September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Healthcare related services	\$ 296,058	\$ 345,731
Facility improvement	911,960	982,562
Purchases of equipment	513,000	513,000
Clinical educator	<u>1,089,637</u>	<u>1,139,160</u>
Total	<u>\$ 2,810,655</u>	<u>\$ 2,980,453</u>

Endowment funds that are permanently restricted as of September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Beneficial trusts	\$ 12,360,649	\$ 12,619,869
Held in perpetuity, income restricted for operations	<u>3,752,381</u>	<u>3,752,381</u>
Total	<u>\$ 16,113,030</u>	<u>\$ 16,372,250</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2011 and 2010, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters - The Hospital's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate of return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy - During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital has not appropriated funds for expenditure from its board restricted endowment funds for the years ending September 30, 2011 and 2010. The Hospital has appropriated \$266,780 and \$774,452 from its temporary restricted funds for the years ended September 30, 2011 and 2010, respectively. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 7 - Professional and General Liability Insurance

The Hospital's insurance limits are as follows:

Policy Year	Deductible Amounts Per Claim/ Aggregate	Excess Coverage Limits	Type Coverage
Fiscal 1982-1984	\$100,00/500,000	\$ 10,000,000	Occurrence
Fiscal 1985	\$250,000/750,000	\$ 15,000,000	Occurrence
Fiscal 1986	\$500,000/1,500,000	\$ 15,000,000	Occurrence
Fiscal 1987-1988	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made
Fiscal 1989-1990	\$1,000,000/3,000,000	\$ 25,000,000	Claims-made
Fiscal 1991-2002	\$1,000,000/3,000,000	\$ 30,000,000	Claims-made
Fiscal 2003-2011	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made

The Hospital self-insures the deductible amounts of the above coverages and all excess limits are covered by insurance policies purchased from commercial carriers.

Professional and general liability claims that fall within the Hospital's self-insurance levels have been asserted against the Hospital by various claimants. The claims are in various stages of activity and resolution. There are also known incidents that have occurred through September 30, 2011, that may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients or for other matters, for which no estimate of exposure can be determined at this time. The Hospital's estimated self-insurance liability reflects management's accrual of its best estimate of these self-insured losses under the policies described above, for occurrences through September 30, 2011.

The Hospital has established a trust for the purpose of setting aside assets for self-insurance purposes. Under the trust agreement, the trust assets can only be used for payment of professional and general liability losses, related expenses and the cost of administering the trust. The assets of, and contributions to the trust are reported in the accompanying financial statements. Income from trust assets and administrative costs are reported in the accompanying statements of operations and changes in net assets as other income.

The Hospital self-insures for workers' compensation. Estimated self-insurance liabilities include estimates for claim obligations related to professional liability, general liability and workers' compensation claims that date. As of September 30, 2011 and 2010, the Hospital maintains a commercial policy for its employees medical coverage. In fiscal year 2011 and 2010, management discounted accrued medical malpractice and workers compensation losses at 4.00% and 5.00%, respectively, and it is management's opinion that this provides for adequate loss contingencies.

Note 8 - Leases

The Hospital has entered into non-cancellable operating and building rentals that expire in various years through fiscal year 2017. Certain leases may be renewed at the end of their term.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Leases (continued)

The following is a schedule of future minimum lease payments under non-cancellable operating leases and building rentals as of September 30, 2011:

	Operating Leases	Building Rentals
For the year ended September 30:		
2012	\$ 1,119,662	\$ 437,338
2013	586,499	345,492
2014	574,225	242,278
2015	504,445	203,373
2016	242,590	62,250
Thereafter	-	51,000
	<hr/>	<hr/>
Total minimum lease payments	<u><u>\$ 3,027,421</u></u>	<u><u>\$ 1,341,731</u></u>

Rental expense was \$1,876,097 and \$1,615,088 for the years ended September 30, 2011 and 2010, respectively.

Note 9 - Pension Plan

The Hospital has a noncontributory defined benefit pension plan (the Plan) that covers all eligible employees and provides for retirement, disability and optional survivor benefits. To participate in the Plan, an employee must meet certain eligibility requirements including attainment of age 21 and one-year of continuous service (defined as 1,000 hours of service in a 12-month period). The time period for employee benefits to become fully vested is five years of continuous service. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Effective January 1, 2011, the Hospital executed a “soft freeze” of the Plan allowing no new employees to participate. All employees currently enrolled in the Plan will continue to vest and accrue benefits in line with Plan policies.

The Hospital’s funding policy for the Plan is to contribute each year the amount as required by the Employee Retirement Income Security Act of 1974, as determined by actuarial valuations developed by the Plan’s actuary. Such funding requirements have been met for fiscal 2011 and 2010.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan (continued)

Significant disclosures relating to the Plan as of September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 90,050,322	\$ 78,017,860
Service cost	2,921,134	2,807,208
Interest cost	4,570,809	4,411,003
Actuarial (gain) loss	(9,310,519)	7,197,387
Benefits paid	<u>(2,604,889)</u>	<u>(2,383,136)</u>
Benefit obligations at end of year	<u><u>\$ 85,626,857</u></u>	<u><u>\$ 90,050,322</u></u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 50,654,789	\$ 46,068,146
Actual return on plan assets	(627,294)	3,638,109
Employer contributions	5,342,703	3,685,000
Expenses paid	(524,699)	(353,330)
Benefits paid	<u>(2,604,889)</u>	<u>(2,383,136)</u>
Fair value of plan assets at end of year	<u><u>\$ 52,240,610</u></u>	<u><u>\$ 50,654,789</u></u>
Accrued pension liability:		
Unfunded status and accrued pension liability (\$6,963,276 and \$5,400,000 is included in other current liabilities for 2011 and 2010, respectively)	<u><u>\$ (33,386,247)</u></u>	<u><u>\$ (39,395,533)</u></u>
Components of net periodic benefit cost:		
Service cost	\$ 3,221,134	\$ 3,124,458
Interest cost	4,570,809	4,411,003
Expected return on plan assets	(4,295,372)	(4,398,011)
Net amortization and deferral	4,400	4,400
Recognized net loss	<u>2,712,776</u>	<u>2,772,322</u>
Net periodic benefit cost	<u><u>\$ 6,213,747</u></u>	<u><u>\$ 5,914,172</u></u>

The accumulated benefit obligation at September 30, 2011 and 2010, under the Hospital's Plan was \$77,487,912 and \$77,315,222, respectively.

The Hospital expects to contribute \$6,963,276 to its pension plan in for the fiscal year beginning October 1, 2011.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan (continued)

Weighted-average assumptions used to determine benefit obligations:	<u>2011</u>	<u>2010</u>
Discount rate	5.95%	5.25%
Rate of compensation increase	3.00%	4.00%
 Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.55%	5.75%
Rate of compensation increase	3.00%	4.00%
Expected long-term return on plan assets	8.00%	9.00%

Amounts recorded in unrestricted net assets as of September 30, 2011 not yet amortized as a components of net periodic benefit cost are as follows:

	<u>2011</u>	<u>2010</u>
Unamortized prior service costs	\$ 7,256	\$ 11,484
Unamortized actuarial loss	<u>33,234,872</u>	<u>40,110,974</u>
 Total	 <u><u>\$ 33,242,128</u></u>	 <u><u>\$ 40,122,458</u></u>

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2012 is \$2,621,263.

The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and the correlation between the returns of various asset classes.

The Hospital's target and pension plan weighted average asset allocations at September 30, 2011 by asset category was as follows:

<u>Asset Category</u>	<u>Target Allocations</u>	<u>Actual Allocations</u>
Equity securities	62%	63%
Debt securities	31%	28%
Short-term investments and other	<u>7%</u>	<u>9%</u>
 Total	 <u><u>100%</u></u>	 <u><u>100%</u></u>

The asset mix was determined by evaluating the expected return against the Plan's long-term objectives. Performance is monitored on a monthly basis and the portfolio is rebalanced back to target levels to ensure the targets are within reasonable range. The investment policy describes which securities are allowed in the portfolios and the financial objectives of the Plan with which the Investment Committee of the Board of Governors oversees. The Investment Committee monitors the investment performance quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan (continued)

The fair values of the Hospital's pension plan assets by asset category are as follows for the year ending September 30, 2011:

	<u>(Level 1)</u>	<u>(Level 2)</u>
U.S. treasury and		
government agencies	\$ -	\$ 847,733
Municipalities	-	269,674
Common collective trusts	-	4,504,448
Corporate and foreign bonds	-	7,199,542
Asset-backed securities and		
mortgage-backed securities	-	104,311
Common stock:		
Consumer discretionary	2,161,298	-
Consumer staples	2,390,062	-
Energy	2,895,563	-
Financials	2,039,341	-
Health care	2,424,187	-
Industrials	3,850,574	-
Information technology	3,550,159	-
Other	1,769,913	-
Exchange traded funds	9,402,399	-
Mutual funds	2,484,572	-
Certificates of deposit	-	1,679,827
Money market funds	-	4,326,611
	<u>\$ 32,968,068</u>	<u>\$ 18,932,146</u>

The fair values of the Hospital's pension plan assets by asset category are as follows for the year ending September 30, 2010:

	<u>(Level 1)</u>	<u>(Level 2)</u>
U.S. treasury and		
government agencies	\$ -	\$ 1,086,612
Municipalities	-	108,679
Common collective trusts	-	4,382,626
Corporate and foreign bonds	-	5,894,017
Asset-backed securities and		
mortgage-backed securities	-	2,243,534
Mutual funds	2,897,164	-
Money market funds	-	3,224,808
Equity securities	30,539,508	-
	<u>\$ 33,436,672</u>	<u>\$ 16,940,276</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pension Plan (continued)

The differences between the fair value of the pension plan assets and the total assets of the pension plan relate primarily to accrued interest and receivables as of September 30, 2011 and 2010 .

The following are the benefit payments, including expected future service, which are expected to be paid:

2012	\$ 2,886,767
2013	\$ 3,290,979
2014	\$ 3,659,670
2015	\$ 3,989,932
2016	\$ 4,236,678
Years 2017-2021	\$ 25,800,165

Note 10 - Long-Term Debt

As of September 30, 2011 and 2010, the Hospital's long-term debt consists of:

	<u>2011</u>	<u>2010</u>
The Charlotte Hungerford Hospital:		
Series C variable rate revenue bonds (a)	\$ 2,355,000	\$ 3,475,000
Bank loan (b)	-	91,965
	<u>2,355,000</u>	<u>3,566,965</u>
Kennedy Drive Mortgages:		
Mortgage (c)	1,611,396	1,699,334
Construction loan (c)	1,999,132	2,089,342
	<u>5,965,528</u>	<u>7,355,641</u>
Less: current portion	<u>(1,341,190)</u>	<u>(1,332,691)</u>
Total	<u>\$ 4,624,338</u>	<u>\$ 6,022,950</u>

- (a) In August 1998, the Hospital, in conjunction with the State of Connecticut Health and Educational Facilities Authority (the Authority), issued \$14,340,000 of Charlotte Hungerford Hospital Series C variable rate demand revenue bonds (the Bonds). The Series C bonds bear interest at a variable rate as determined by re-marketing agent (approximately 0.26% and 0.55% as of September 30, 2011 and 2010, respectively), which is adjusted weekly, and mature on July 1, 2013.

For as long as the Bonds are in a variable rate mode, the bond holders have the option to tender their bonds for repayment. The Hospital has a letter of credit from Sovereign Bank, which is available to support its obligations under the Bonds during this period. The letter of credit expires on July 13, 2013, subject to extension or earlier termination upon the occurrence of certain events set forth in the letter of credit agreement. Tenders made by bond holders will be remarketed or, if necessary, paid by the drawdowns on the letter of credit. Any tender drawings made under the letter of credit are to be repaid by the Hospital on the expiration date of the letter of credit.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 10 - Long-Term Debt (continued)

The Hospital funds monthly interest payments on the Bonds. In addition, the Hospital is required to make mandatory sinking fund payments through maturity as follows:

2012	\$ 1,155,000
2013	<u>1,200,000</u>
Total	<u><u>\$ 2,355,000</u></u>

Various funds have been established and maintained by the trustee for debt service. The bond indenture, letter of credit and related agreements contain certain restrictive covenants, the most restrictive of which are the limitation of additional indebtedness the Hospital may incur and the maintenance of certain financial ratios. As of September 30, 2011, the Hospital was in compliance with its debt covenants. As of September 30, 2010, the Hospital was not in compliance with one debt covenant which was waived by CHEFA. The Hospital has granted the Authority a collateral interest in the Hospital's gross receipts, as defined.

- (b) On April 17, 2006, the Hospital obtained a \$692,000 loan to complete leasehold improvements for the building located at 200 Kennedy Drive in Torrington, Connecticut. The loan bears interest at fixed rate of 6.34% with fixed monthly principal and interest payments of \$13,488. The loan matured on April 1, 2011 and was secured by the Hospital's assets. As of September 30, 2010, \$91,965 was outstanding.
- (c) In December 1997, the now dissolved Kennedy Drive Associates, LLC (KDA) obtained a \$2,300,000 construction loan. Under the term of this loan, which was assumed by the Hospital, principal payments of \$25,865 are due quarterly. The loan bore interest at a fixed rate of 8.17%.

On October 2003, KDA refinanced the outstanding construction loan into a mortgage loan for \$2,210,000. The amount outstanding on the refinanced debt amounts to \$1,611,396 and \$1,699,334 as of September 30, 2011 and 2010, respectively. This loan bears interest at a fixed rate of 6.01%. The loan matures on October 29, 2013 and is secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

KDA also obtained a construction loan in the amount of \$2,080,000 during the year ended September 30, 2004. During 2005, KDA made additional drawdowns on the construction loan in the amount of \$1,750,000. The amount outstanding on the debt amounts to \$1,999,132 and \$2,089,342, as of September 30, 2011 and 2010, respectively. This loan bears interest at a fixed rate of 6.44% as of September 30, 2011 and 2010. The loan matures on October 29, 2013 and is secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

Debt related to the above (b) and (c) have financial covenants. As of September 30, 2011 and 2010, the Hospital was in compliance with those financial covenants.

Maturities of long-term debt are as follows:

2012	\$ 1,341,190
2013	1,251,586
2014	<u>3,372,752</u>
Total	<u><u>\$ 5,965,528</u></u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 11 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Patient care services	\$ 90,294,534	\$ 86,382,867
General and administrative	<u>23,586,233</u>	<u>23,442,318</u>
	<u><u>\$ 113,880,767</u></u>	<u><u>\$ 109,825,185</u></u>

Note 12 - Commitments and Contingencies

The Hospital is party to various lawsuits incidental to its business. After consultation with legal counsel, management believes that the lawsuits and inquiries will not have a material adverse effect on the Hospital's financial position, results of operation or cash flows.

FASB ASC 410 "*Asset Retirement and Environmental Obligations*" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that two facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2011 and 2010, no ARO has been established, as no plans to renovate or sell any facility, or area within, with significant asbestos material have been identified and therefore no settlement date has been determined. Management will continue to monitor its exposure for asbestos removal and establish an ARO for the fair market value of the associated costs once sufficient information has been obtained or a settlement date has been determined.

Note 13 - Risks and Uncertainties

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

In addition, the Plan invests in various investments securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

The Charlotte Hungerford Hospital
Schedule of Gross Patient Service Revenue by Business Unit (Hospital Only 2010)
For the Years Ended September 30, 2011 and 2010

Business Unit	2011			2010		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Behavioral health	\$ 5,216,783	\$ 9,818,363	\$ 15,035,146	\$ 6,115,996	\$ 8,870,944	\$ 14,986,940
Health and disease management	6,517,122	12,517,357	19,034,479	6,110,142	11,583,152	17,693,294
Community services	14,580	2,285,030	2,299,610	3,526	1,929,494	1,933,020
Diagnostic services	7,696,133	22,919,454	30,615,587	7,403,700	21,815,769	29,219,469
Laboratory	7,489,109	23,175,353	30,664,462	7,152,773	23,159,013	30,311,786
Facility support services	-	15,332	15,332	-	22,513	22,513
Inpatient medical	9,958,723	231,704	10,190,427	9,400,237	121,127	9,521,364
Inpatient surgical	15,058,247	1,242,114	16,300,361	14,248,036	884,303	15,132,339
Medical ambulatory	1,060,178	3,270,074	4,330,252	745,333	2,462,356	3,207,689
ED/ICCU	6,955,761	16,898,421	23,854,182	6,242,835	14,501,940	20,744,775
Maternal child care	4,446,923	513,794	4,960,717	4,533,566	525,079	5,058,645
Physician practices	1,744,691	7,737,753	9,482,444	1,140,676	3,309,011	4,449,687
Surgical services	14,710,264	11,675,730	26,385,994	11,840,219	10,539,297	22,379,516
Winsted health center	155,275	4,565,853	4,721,128	187,761	4,201,733	4,389,494
Hospitalist	2,089,188	1,497,955	3,587,143	1,934,679	135,960	2,070,639
Pharmacy	3,657,143	3,495,190	7,152,333	3,691,475	3,410,161	7,101,636
Charity care	(710,749)	(998,173)	(1,708,922)	(574,595)	(764,732)	(1,339,327)
Total gross revenue	\$ 86,059,371	\$ 120,861,304	\$ 206,920,675	\$ 80,176,359	\$ 106,707,120	\$ 186,883,479

See accompanying Independent Auditors' Report

The Charlotte Hungerford Hospital
Schedule of Revenues, Gains and Other Support (Hospital Only 2010)
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Gross patient revenue	\$ 206,920,675	\$ 186,883,479
Allowances		
Medicare	39,311,876	33,015,231
Medicare managed care	4,547,070	3,081,592
Medicaid	13,470,596	12,147,565
Medicaid managed care	10,328,907	8,743,315
Blue Cross	12,841,466	11,929,917
Employee	60,489	65,858
HMO/PPO	15,138,768	13,393,770
Commercial	1,409,454	1,180,395
Self Pay	791,847	741,920
Uncompensated Care	(559,515)	(609,736)
Total allowances	<u>97,340,958</u>	<u>83,689,827</u>
Net patient service revenue	109,579,717	103,193,652
Other revenue		
State of Connecticut mental health grants	2,179,225	2,348,497
Clinical joint ventures	595,957	612,026
Other grant revenue	348,079	380,791
Sale of hospital services	5,603	9,997
Meals on wheels	114,753	108,963
Medical histories	743	1,500
Healthwatch	32,878	35,896
Discounts earned	233,023	205,043
Patient/community education	12,435	18,545
Miscellaneous	583,806	657,178
Winsted ERP collections	64	(200)
Lease revenue	792,971	882,237
Net (loss) gain on assets	(3,371)	(85,887)
Interest income	53,220	103,197
Total other revenue	<u>4,949,386</u>	<u>5,277,783</u>
Total revenue	<u><u>\$ 114,529,103</u></u>	<u><u>\$ 108,471,435</u></u>

See accompanying Independent Auditors' Report

The Charlotte Hungerford Hospital
Schedule of Operating Expenses by Business Unit (Hospital Only 2010)
For the Years Ended September 30, 2011 and 2010

Business Unit	2011			2010		
	Salaries	Other Expenses	Total	Salaries	Other Expenses	Total
Behavioral health	\$ 6,304,302	\$ 984,843	\$ 7,289,145	\$ 6,211,760	\$ 780,643	\$ 6,992,403
Community services	756,926	166,142	923,068	787,952	144,668	932,620
Diagnostic services	2,745,572	1,953,438	4,699,010	2,633,826	2,024,518	4,658,344
ED/ICCU	3,403,598	1,362,326	4,765,924	3,312,896	979,783	4,292,679
Facility support services	710,543	3,954,907	4,665,450	765,263	3,961,139	4,726,402
Financial services	2,989,129	771,322	3,760,451	2,664,068	758,528	3,422,596
Health and disease management	3,338,578	2,124,481	5,463,059	3,087,650	1,983,287	5,070,937
Inpatient medical	3,198,082	309,433	3,507,515	2,922,425	256,082	3,178,507
Inpatient surgical	4,200,993	621,947	4,822,940	3,711,414	665,642	4,377,056
Laboratory	3,075,402	4,122,208	7,197,610	3,052,367	4,421,357	7,473,724
Maternal child care	2,567,475	182,540	2,750,015	2,381,726	223,832	2,605,558
Medical ambulatory	427,430	191,189	618,619	452,467	208,317	660,784
Pharmacy	1,000,237	3,499,802	4,500,039	1,172,041	3,411,517	4,583,558
Physician practices	2,890,602	521,215	3,411,817	1,664,254	222,697	1,886,951
Surgical services	2,984,374	5,761,661	8,746,035	2,914,102	5,613,515	8,527,617
Uncompensated care, net	-	2,129,955	2,129,955	-	2,413,649	2,413,649
Winsted health center	1,013,040	364,593	1,377,633	999,312	388,068	1,387,380
Unallocated Expenses						
Human resources	891,708	16,164,459	17,056,167	925,536	15,980,134	16,905,670
Medical affairs	2,254,971	355,111	2,610,082	1,892,277	394,155	2,286,432
Administration	8,534,712	8,617,719	17,152,431	8,180,598	7,883,208	16,063,806
Depreciation and amortization	-	6,178,082	6,178,082	-	6,171,088	6,171,088
Interest	-	255,720	255,720	-	279,402	279,402
Total operating expenses	\$ 53,287,674	\$ 60,593,093	\$ 113,880,767	\$ 49,731,934	\$ 59,165,229	\$ 108,897,163

See accompanying Independent Auditors' Report

The Charlotte Hungerford Hospital
Consolidating Statement of Operations and Changes in Unrestricted Net Assets
For the Year Ended September 30, 2010

	The Charlotte Hungerford Hospital	Surgical Associates of Litchfield County	Eliminations	Consolidated
Unrestricted revenues				
Net patient service revenues	\$ 103,193,652	\$ 564,633	\$ -	\$ 103,758,285
Other revenues	5,277,783	5,250	-	5,283,033
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	108,471,435	569,883	-	109,041,318
Expenses				
Salaries and wages	49,731,934	599,340	-	50,331,274
Physician fees	1,154,344	-	-	1,154,344
Employee benefits	15,592,933	51,063	-	15,643,996
Services	13,551,971	89,035	-	13,641,006
Supplies	18,139,138	83,290	-	18,222,428
Provision for bad debts	2,413,649	-	-	2,413,649
Depreciation and amortization	6,171,088	5,953	-	6,177,041
Interest and bond expenses	333,980	40,319	-	374,299
Insurance	1,808,126	59,022	-	1,867,148
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Total operating expenses	108,897,163	928,022	-	109,825,185
	<hr/>	<hr/>	<hr/>	<hr/>
Operating loss	(425,728)	(358,139)	-	(783,867)
Other income (loss)				
Investment and other income, net	1,996,464	-	-	1,996,464
Gifts and bequests	127,644	-	-	127,644
Surgical Associates of Litchfield County loan reserve	(264,625)	-	264,625	-
Gain from equity method investments	119,337	-	-	119,337
	<hr/>	<hr/>	<hr/>	<hr/>
Total other income	1,978,820	-	264,625	2,243,445
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenses	1,553,092	(358,139)	264,625	1,459,578
Other changes in unrestricted net assets				
Change in unrealized losses on investments	1,124,598	-	-	1,124,598
Pension related changes other than net periodic pension costs	(5,216,819)	-	-	(5,216,819)
SALC asset transfer	72,492	(72,492)	-	-
Reclassification of temporary net asset	109,559	-	-	109,559
	<hr/>	<hr/>	<hr/>	<hr/>
Change in unrestricted net assets	<u>\$ (2,357,078)</u>	<u>\$ (430,631)</u>	<u>\$ 264,625</u>	<u>\$ (2,523,084)</u>

See accompanying Independent Auditors' Report